INTRODUCTION

The County Executive Office (CEO) is pleased to provide you with the FY 2005-06 Recommended Budget. The CEO recommendations to the Board of Supervisors reflect Orange County's disciplined approach to fiscal management and are consistent with the County's Strategic Financial Planning process. The budget recommendations will be presented at a public budget workshop on May 27, 2005 and discussed at public budget hearing scheduled to begin on June 14, 2005.

The FY 2005-06 Proposed Budget reflects the impacts of the local, state and national economies, limited revenue growth and the rising cost of doing business. The County's local economy, although impacted by external factors, continues to be strong and diverse. As of January, the FY 2005-06 State Budget faced an $8.6 billion funding gap. The County's budget proposal reflects the impacts of the Governor's January budget and will be updated based on the May Revise.

This introduction contains a guide to reading the budget document, a brief description of the County's form of government, Supervisorial Districts, mission statement and the County's Corporate Management System. This report reviews the State budget and economic factors influencing the County budget, provides summary budget information, and issues in various program areas of the budget.

I. A CITIZEN'S GUIDE TO READING THE BUDGET DOCUMENT

This document includes information that provides readers with a greater understanding of each department's mission, organizational structure, and performance results as a narrative context for the budget amounts. The introduction section contains several charts and tables, which provide an overview of issues affecting the budget, sources and uses of funds and budgeted positions. Following the introduction are sections that present each department and fund in the County's seven program areas listed below:

1. Public Protection
2. Community Services
3. Infrastructure and Environmental Resources
4. General Government Services
5. Capital Improvements
6. Debt Service
7. Insurance, Reserves and Miscellaneous

The presentation for each department within the each program areas includes:

An ***Operational Summary*** including:

- Mission
- Budget at a Glance
- Strategic Goals
- Key Outcome Indicators (Performance Measures)
- Key Accomplishments of the current year

An ***Organizational Summary*** including:

- Organization Chart
- Description of each major activity
- Ten-year staffing trend chart with highlights of staffing changes

A FY 2005-06 ***Budget Summary*** including:

- Department's plan for support of the County's strategic priorities
- Changes included in the base budget
- Requested budget augmentations and related performance results
- Recap of the department base budget
- Highlights of the key budget trends
- A matrix that shows all of the budget units under the department's control

Readers looking for budget information for a specific department can use the Index near the end of the book. Departments are listed in alphabetical order with the page number of that department's budget information.

All County departments prepare annual business plans that serve two key purposes: Communicating the value that the department brings to the community and outcome indicators that measure how it is doing. A business plan sets forth long-term goals, discusses operational and budget challenges, identifies strategies overcoming the challenges and making progress on those goals during the coming year and identifies how success will be measured by using outcome indicators (performance measures). Occasionally, key outcome indicators change because of an ongoing review to ensure consistency with the departmental mission and goals. It is the intent that outcome indicator changes will be minimized over time so the reader of the business plans and this budget document can consistently observe trends and progress in meeting objectives.

Following the seven program areas is an appendix for readers who desire an additional level of budget detail. This includes each department's total budget broken down by major revenue and expense category and that same level of revenue and appropriation detail for each of the activities within the department.

II. ORGANIZATIONAL OVERVIEW

The Orange County's FY 2005-06 Proposed Budget presents the County's financial capacity and priorities in providing public safety and health, social services, environmental, and regional planning services for its residents. The County provides the public with a comprehensive array of public services through its departments and through comprehensive community partnerships with public, private and non-profit agencies. On April 12, 2005 the Board of Supervisors made the Dana Point Harbor operation, that was formerly part of the Resources & Development Management Department, a separate department for more focused management. In addition, on May 3, 2005 the Board of Supervisors made the Public Administrator/Public Guardian a separate department; it was formerly part of the Health Care Agency.

FORM OF GOVERNMENT

The County is a charter County as a result of the March 5, 2002 voter approval of Measure V that provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law County, mid-term vacancies would otherwise be filled by gubernatorial appointment. In all other respects, the County is like a general law County. A five-member Board of Supervisors, each of who serve four-year terms and annually elect a Chairman and Vice Chairman, governs the County. The Supervisors represent districts that are each equal in population. The members of the Board of Supervisors by district are as follows:

BILL CAMPBELL, *CHAIRMAN*, from the Third District, representing the communities of Brea, Irvine, Orange, Villa Park, Yorba Linda, Tustin and portions of Anaheim.

THOMAS W. WILSON, *VICE CHAIRMAN*, from the Fifth District representing the communities of Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, San Clemente, San Juan Capistrano and Rancho Santa Margarita.

LOU CORREA, from the First District, representing the communities of Santa Ana, Westminster, and portions of Garden Grove.

JIM SILVA, from the Second District, representing the communities of Costa Mesa, Cypress, Fountain Valley, Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton, and portions of Garden Grove.

CHRIS NORBY, from the Fourth District, representing the communities of Buena Park, Fullerton, La Habra, Placentia and portions of Anaheim.

COUNTY MISSION STATEMENT

In 1996, the County adopted its first mission statement to define Orange County government, its organizational focus and core businesses. The County's mission statement reads:

The County of Orange is a collection of dedicated, public-spirited individuals, who together comprise a regional service provider and planning agency committed to maximizing resources and improving the quality of life for residents in Orange County. Our core businesses are public safety, public health, environmental protection, regional planning, public assistance, social services and aviation.

The County is committed to providing Orange County residents with the highest quality programs and services as articulated in its mission statement. Supporting this mission statement is a series of guiding principles that frame how the County operates and prioritizes its resources:

- **RELY ON THE STRATEGIC FINANCIAL PLAN** to make day-to-day decisions that consistently move the County toward its long-term goals.
- **VALUE OUR WORKFORCE** to ensure that citizens are served by a professional and dedicated workforce.

- **ENHANCE TECHNOLOGY** for productivity and service delivery to use modern methods to reduce costs and improve services.
- **COMMUNICATE COUNTY PRIORITIES** to ensure that our employees and partners understand how the County is achieving its long-term goals.

III. ECONOMIC OUTLOOK FOR FY 2005-06

Two indicators of the state of the Orange County economy are: how well the local economy is performing relative to surrounding counties, the state and the nation (i.e., External Indicators) and; how well the local economy is performing relative to its own historical trends (i.e., Internal Indicators). In terms of the external indicators, Orange County's economy routinely out-performs local surrounding counties, the state, and national economies (in annual percentage growth), and, in fact, ranks higher (in absolute dollars) than the economies of the majority of the world's countries. Current external indicators show that despite the current sluggishness of the local economy, conditions in Orange County remain relatively favorable when compared to surrounding counties, the state and the nation. In terms of internal (historical) trends, current and projected indicators suggest that the recovery of the Orange County economy will be slow but steady in 2005. This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

Orange County's unemployment rate continues to be one of the lowest in the State, and is below that of all surrounding Southern California counties, the state of California and the nation. In March 2005 unemployment rates for the U.S., California and Orange County were recorded at 5.2%, 5.4%, and 3.8% respectively. In March 2005 rates for surrounding counties in Southern California were 5.6% (for Los Angeles County), 5.0% (for Riverside County), 5.0% (for San Bernardino County) and 4.3% (for San Diego County). Comparisons of Orange County's unemployment rates from January 2005 through March 2005 were favorable at 4.1% in January, 4.1% in February and 3.8% in March. Similarly, historical point-in-time unemployment rates in Orange County during the month of March of 2000, 2001, 2002, 2003, 2004 and 2005 show 3.7%, 3.6%, 5.0%, 5.0%, 4.8%, and 3.8%, respectively.

According to Chapman University, Orange County's job growth is expected to increase by 1.4% in 2005 and result in approximately 20,532 more jobs relative to 2004. This compares favorably, in percentage growth, with the State of California at 1.2% and at the national level at 1.3% during the same time period. Historically, job growth in Orange County has been sporadic since the early 2000's. From 2000 to 2005 job growth in Orange County was 3.2% in 2000, 1.8% in 2001, -0.7% in 2002, 1.6% in 2003, 1.8% in 2004 and is projected to reach 1.4% in 2005.

Inflation, as measured by the Consumer Price Index (CPI), is expected to remain moderately low in Orange County, and be slightly higher than the CPI at the state and national levels in 2005. Chapman University projects the CPI at the national level to increase by 2.9%, in California by 2.8%, and in Orange County by 3.1% in 2005. Comparisons of Orange County's historical CPI trends from 2000 to 2005 are relatively favorable at 3.3%, 3.4%, 2.8%, 2.6%, 3.1% and 3.1%, respectively.

According to DataQuick Information Systems, in March 2005 the median price for new and existing homes in Orange County increased by 16.5% (relative to March 2004), and reached $565,000. This compares to increases of 17.3% for Los Angeles County, 12.5% for San Diego County, 26.3% for Riverside County, and 34.8% for San Bernardino County. This shows that annual housing appreciation in Orange County, although not as great as in some surrounding Southern California counties, has continued to increase at a relatively rapid rate. Moreover, median sales in Orange County continue to exceed all surrounding Counties by a substantial amount; $565,000 for Orange County, $477,000 for San Diego County, $440,000 for Los Angeles County, $379,000 for Riverside County and $221,000 for San Bernardino County. Historically, year-to-year home sale price increases in Orange County for the month of March exclusively are 12.3% for March 2001, 13.7% for March 2002, 18.7% for March 2003, 23.1% for March 2004, and 16.5% for March 2005. For the future, Chapman University is projecting that while housing appreciation will slow down, housing affordability rate (compared to other parts of the country) will continue to remain low.

Median family incomes were adjusted ("Re-benched") in 2003 by the U.S. Department of Housing and Urban Development (HUD) to comply with actual data collected during the 2000 Census. Orange County's adjusted (HUD) median family income is expected to be $75,700 in 2005. This compares to $54,450 for Los Angeles County, $63,400 for San Diego County, $55,650 for Riverside County, $62,500 for the State of California and $58,000 for the U.S during the same time period.

Taxable sales in Orange County are forecast by Chapman University to increase by 4.9% in 2005. This compares to an increase of 4.4% for the of California. Taxable sales in Orange County increased by 10.1% in 2000, by 0.3% in 2001, by 0.6% in 2002, by 5.6% in 2003, by 6.0% in 2004, and are expected to increase by 4.9% in 2005.

In summary, economic growth in Orange County continues to look favorable relative to surrounding counties, the state and the nation. Moreover, projected trends suggest that the recovery of the local economy will be slow but steady during the balance of 2005.

STATE LEGISLATION AND BUDGET

The FY 2004-05 State budget included significant impacts to the County budget that carry over into FY 2005-06. These include:

- A second year of $27.7 million County General Fund revenue shifted to the state
- A second year of 10% of property tax shift from other funds to the State:
  - $4.3 million from the Orange County Flood Control District
  - $3.3 million from County Harbors, Beaches & Parks
  - $1.7 million from Redevelopment
  - The Orange County Public Library and Orange County Fire Authority continue to be exempt from this property tax shift.
- The County will have to wait until FY 06-07 for:
  - Mandated cost reimbursement. The five-year payback period will be extended up to 15 years. The State Legislative Analyst Office reports that most mandates are suspended in FY 05-06.
  - The County's $26.5 million Vehicle License Fee gap loan repayment is expected in August 2006

The Governor's January budget proposal for FY 2005-06 addressed an estimated shortfall of $8.6 billion as a result of a continuing imbalance between spending and revenues. This gap is closed by the following recommendations that total $9.1 billion and provides for a $500 million general fund reserve:

- $2.3 billion in Proposition 98 education funding cuts. (Schools would still get $2.4 billion or 7% more than this year.)
- $4.7 billion in cuts to social services programs, transportation and other areas
- $1.7 billion in revenue from use of remaining economic recovery bonds
- $0.4 billion from increased Federal revenues and enhance tax collections, etc.

The proposed State budget also assumes sale of State Pension Obligation Bonds that are currently under court challenge. If the challenge is successful, $765 million in savings would need to be obtained elsewhere in the budget. It also assumes $408 million in State employee compensation savings that are subject to collective bargaining negotiations. If these are unsuccessful, savings would be required elsewhere in the budget.

Many of the State spending reductions will affect programs and services that the County provides to the local community and are included in the County's recommended budget. Specific program impacts are included in Section IV of this report.

The May revise is scheduled for release on May 13, 2005 and could result in modifications to the recommendations in the County budget. These will be discussed at the County budget hearings. The CEO will continue to monitor the State budget process as the Governor and the Legislature work together to finalize the State budget. Further changes that affect the County budget will be incorporated as they become known.

MAJOR REVENUE AND EXPENSE ASSUMPTIONS

The County budget includes a wide variety of funding sources:

- State and Federal funding sources are estimated by departments based on established funding allocation formulas and caseload projections and the latest State budget information.
- Total property taxes are projected to increase by 5.9%.
- Vehicle license fees are projected to increase by 5% based on State projections, Chapman University forecasts and trend data. In addition, the intercept of a portion of the motor vehicle license fees for the County's 1995 Refunding Recovery Bonds continues at $28.3 million.
- Total sales and other taxes revenue to the general fund is projected to increase by 2.9% based on estimates by Chapman University; Hinderliter, De Llamas & Associates (sales tax consultant to the County) and the State Board of Equalization.
- Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services and Probation is projected to increase only 2.8% from prior year estimated amounts and are not keeping pace with program cost increases.
- The one-half cent Public Safety Sales Tax (PSST) provides $264 million to help fund the Sheriff and District Attorney. The funds are allocated 80%/20% respectively by Board policy. The amount for FY 2005-06 is projected to be 5.4% greater than the prior fiscal year. There is an initiative to reallocate a portion of the County's PSST funds from the Sheriff and District Attorney to the Orange County Fire Authority. If passed, this initiative would reduce funding to the Sheriff and District Attorney by over $30 million annually in five years.
- The interest rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 3%, an increase from the average 1.8% rate over the past 12 months.
- Substance Abuse and Crime Prevention Act (Proposition 36) funds are estimated to be $8.7 million. This is the last fiscal year for full State funding unless legislation is enacted to continue it. In Orange County, these funds are allocated to the following participating departments:
  - $6.1 million to Health Care Agency
  - $1.6 million to Probation
  - $0.5 million to District Attorney
  - $0.5 million to Public Defender

On the expense side:

- Labor costs are centrally calculated based on approved positions and historical vacancy factors. One to two step merit increases are assumed for employees who are eligible. Actual merit awards are based on the employee's performance evaluation. No base building wage increase appropriations are built into the departmental budgets as these are subject to negotiations and approval by the Board of Supervisors. As these agreements are completed, current budget status will be reviewed and the need for budget adjustments will be determined. No Performance Incentive Program (PIP) appropriations are built into the departmental budgets as this program is currently a time-off award only. A 2% Management Appraisal Program increase is budgeted consistent with labor agreements already approved.
- Retirement costs are budgeted to increase in total about 2.4%.
- Health insurance increases (on a lower FY 2004-05 base amount) are expected to average 15%.
- Inflation on other services and supplies is generally estimated at 3% with higher rates for fuel and medical supplies.

APRIL 2005 STRATEGIC FINANCIAL PLAN

The Strategic Financial Plan (SFP) process provides the framework for balancing available resources with operating requirements, implementing new programs and facilities and serves as the foundation for the annual budget. This framework enables the Board to make annual funding decisions within the context of a comprehensive, long-term perspective. Since 1998, the Strategic Financial Plan has been annually updated to review revenue and expense forecasts. New priorities are identified and considered as part of a comprehensive update of the plan.

The Strategic Financial Plan contains five elements:

- Economic Forecast
- General Purpose Revenue and Fund Balance Available Forecast
- Program cost forecast

- Strategic Priorities
- General Fund Reserves Policy

Last year, the department heads considered and ranked the County's strategic priorities in a workshop held on April 6, 2004. This resulted in a top ten list:

- County Accounting and Personnel System (CAPS) Replacement
- Credit and Debt Management Strategy - Debt Reduction
- District Attorney High Tech Crime and Identity Theft Units
- Bio-terrorism and Public Health Preparedness
- Affordable Housing
- Los Pinos Wastewater Mitigation
- Youth and Family Resource Centers-Probation
- Preventive Maintenance
- Water Quality and Watershed Protection
- 800 Megahertz Communications System Upgrade

Also, in the previous SFP, departments forecasted that the future cost of on-going baseline activities would have exceeded projected available financing. With that plan, the Board adopted a balancing strategy of level Net County Costs for all General Fund departments for two years, FY 2004-05 and FY 2005-06. The FY 2005-06 budget recommendations are based on this strategy with few exceptions for smaller departments with little budget flexibility.

The April 2005 SFP showed a base forecast that was nearly balanced for the next five years including the property tax shift to the state, repayment of the Vehicle License Gap loan, initial repayments of SB-90 mandated cost claims, modest growth in departmental Net County Cost limits, payments for the County's agreed share of the South Court construction, savings from full cost recovery (or discontinuation of) the AB 3632 Mental Health program, increasing cost of doing business and about $20 million annually for one-time critical augmentations. The plan also demonstrated that the General Fund cannot currently afford, without program changes and further operating cost reductions, the loss of Public Safety Sales Tax should the ballot initiative pass, full funding of retiree medical reserves or the cost of the top ten strategic priorities.

On April 12, 2005 the Board held a workshop on the Strategic Financial Plan. Based on Board direction, the next SFP update will revisit the strategic priorities and examine how to deal with retiree medical costs. The next update will also contain an updated general purpose revenue forecasts and departmental operating cost projections. The County is developing a model to extend the five-year forecast to 20 years for an increased planning horizon.

IV. OVERVIEW OF THE FY 2005-06 RECOMMENDED COUNTY BUDGET

BASIS OF BUDGETING

The County's budget and its accounting system are based on the modified accrual system. The fiscal year begins on July 1. Revenues are budgeted as they are expected to be received or as they are applicable to the fiscal year. Fund balance available (FBA) is estimated and adjusted for increases or decreases to reserves. Revenues plus fund balance available equals total available financing. Consistent with the Governmental Accounting Standards Board (GASB) ruling 33, only revenues expected to be received within 60 days of the end of the fiscal year are included. Expenses are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. Expenses and increases to reserves must be balanced with available financing.

BUDGET DEVELOPMENT

In late December 2004, the CEO issued the following budget development policies and guidelines to all County departments as a starting point for the budget development:

Consistency with Strategic Financial Plan and Business Plan Concepts: Base operating budget requests shall be consistent with the priorities and operational plans contained in the SFP and the approved departmental business plans as resources are available. Department heads are responsible for using these planning processes along with program outcome indicators to evaluate existing programs and redirect existing resources as needed for greater efficiency, to reduce cost and minimize the requests for additional resources. A certification regarding the evaluation of existing resources is required as part of the budget request submittal.

Salaries & Employee Benefits: The Salary and Benefits Forecasting System (SBFS) in BRASS will set the regular salary and employee benefits base budgets. The vacancy factor will be set at the historical actual vacancy rate based on the 12 months ending December 2004.

Budgeted extra-help positions must comply with the MOU provisions. Those that do not are to be deleted with a corresponding reduction in the extra-help account or converted to regular positions if the department justifies the continuing work and absorbs the additional cost. Leave balance payoffs will likely be greater than normal due to anticipated retirements after July 1, 2005. Departments are expected to absorb these costs as well as costs of workforce planning issues that may be agreed on during the year.

Services & Supplies: Services and supplies shall be budgeted at the same level as actual use during last fiscal year and current year projections to the extent they are necessary to support business plan and SFP goals.

Fees and Charges for Services: Departments are responsible for identifying total cost for programs with fees and to set fees at full cost recovery for the entire fiscal year. Full cost recovery includes direct and indirect costs, overhead and depreciation for the period during which the fee will be in effect. If fees are set at less than full cost recovery, the reason for subsidy should be given. Fees that are set by State law shall be implemented in accordance with those laws.

Revenue and Grants: Program revenues (e.g. State and Federal programs revenues) are to be used to offset the department's proportional share of operating costs to the full extent of the program regulations. Local matching funds should normally be at the legal minimum so that the general fund subsidy (backfill) is minimized. Program revenues are to be used for caseload growth.

One-time revenues shall be limited for use on non-recurring items including start-up costs, program or reserve stabilization, capital expenses and early debt retirement.

New revenue sources pending legislation or grant approval should not be included in the base budget request. They should be considered during the quarterly budget report process (i.e. when legislation is passed or grants awarded).

Net County Cost (NCC): NCC limits for the next five years are based on the current budget, adjusted for one-time items and Step 2 items (non-core, non-mandated, over match items) recommended for reduction in the 2003 SFP. These limits generally hold all departments level for two years (fiscal year 2005-06 is the second year) then grow at a modest rate (about 3% per year) based on the anticipated growth rate in general purpose revenues. There is a continued need to carefully manage the growth in the use of general purpose revenues.

Departments shall submit budget requests at or below the NCC limits. The CEO/Budget Office is authorized to automatically reduce, if necessary, the appropriation requests of any budget that exceeds the established NCC limit.

Reserves and Contingencies: The County General fund currently contains formal reserves, appropriations for contingencies, appropriated reserve-type funds and reserves held by others. The purpose of these reserves is to protect community programs and services from temporary revenue shortfalls and provide for unpredicted, sudden and unavoidable one-time expenditures. The April 2005 SFP contains the formal General Fund Reserves Policy. Certain departments and non-general funds have other reserves dedicated to specific programs and uses.

Balanced Budget: The general fund requirements will be balanced to available resources.

Funds outside the General Fund: Budgets for funds outside the General Fund are to be balanced to Available Financing without General Fund subsidy. Available Financing shall be determined by an accurate projection on June 30 Fund Balance Available (FBA) and realistic estimates of budget year revenues and any planned decreases to reserves. If available financing exceeds requirements, the difference should be put into reserves for use in the future.

Augmentations (requests for new or restored resources): All augmentation requests must include outcome indicators that clearly outline the department's intended outcome(s) resulting from the additional resources. They must be ranked in order of the department's priority for approval. The department head must certify that all potential alternatives for redirecting existing resources have been examined and that there are no lower priority items that can be reduced or eliminated in order to free up existing resources. This certification will be contained in the budget cover letter from the department head to the CEO.

Approved augmentations will undergo an outcome indicator review for two subsequent years as a condition of continued funding. Departments will report on outcome indicator results (to the extent data is available by budget submittal due date) of the performance expectations in a format that will be provided as a separate package. Augmentations will be funded if the CEO and department agree that:

- They meet the performance expectations
- They merit continuation
- They are still relevant to the department's business plan
- Sufficient funding exists

Program Budgets outside the General Fund: It is the department head's responsibility to ensure that the proposed use of program funds is consistent with the available financing and legal restrictions on funds, the department's business plan, the County's strategic priorities and has been coordinated with the appropriate stakeholder groups external to the County.

In context of these policies and guidelines, departments prepare current year projections of expenses and revenues and requests for the next fiscal year. The CEO/County Budget Offices reviews the requests, meets and discusses the requests with the department and prepares final recommendations for the Board. These recommendations are presented to the public via a budget workshop and then to the Board of Supervisors during public budget hearings. Operating and capital budgets are prepared in this single process and presented together in this budget book.

Preceding the budget program sections, the following charts and schedules are provided as an overview of the budget:

1. Total County Revenue Budget
2. Total County Financing
3. Total County Revenues by Source
4. Total County Appropriations by Program
5. General Fund Sources & Uses of Funds
6. General Fund Appropriations by Program
7. General Purpose Revenue
8. General Fund Net County Cost by Program
9. Public Safety Sales Tax
10. Health & Welfare Realignment
11. Authorized Positions by Program
12. Total County Budget Comparison
13. Provision for Reserves Summary
14. Position Summary
15. Summary of Net County Costs
16. County of Orange Organization Chart

HIGHLIGHTS OF THE FY 2005-06 RECOMMENDED BUDGET

Total Budget:

- Total County Base Budget is $4.94 billion, an increase of 6.8% from the prior year adopted budget.
- Total budgeted positions are 17,785 in the base budget, an increase of 1% from the prior year adopted budget. Approval of recommended augmentations would increase the total position count by 236.
- Total General Fund Budget is $2.6 billion, an increase of 4.9% from the prior year adopted budget.
- General Purpose Revenues (excluding General Fund Balance Available) total $434 million, an increase of 4.8% over current year projected revenues.
- General Fund Balance Available (FBA) is projected to be $105 million by the end of the current year **(Table A)**:

Table A

	FY 2002-03 Actual	FY 2003-04 Actual	FY 2004-05 Projected
Beginning FBA July 1	$ 152.6	$ 163.8	$ 145.3
Changes to Reserves	22.1	(4.0)	29.4
Revenues	2,187.1	2,297.6	2.322.5
Transfer to PSST fund	N/A	N/A	(16.5)
Available Financing	2.361.8	2.457.4	2.497.2
Expenditures/Encumbrances	(2.226.4)	(2,325.6)	(2,402.2)
Changes in Encumbrances	27.9	13.5	10.0
Other adjustments	0.5	0.0	0.0
Ending FBA June 30	$ 163.8	$ 145.3	$ 105.0

Specific Program Highlights:

PUBLIC PROTECTION

District Attorney

- The base budget includes $1.3 million for equipment and personnel supporting Identity Theft and High Tech Crime strategic priorities funded by Public Safety Sales Tax.
- A recommended augmentation would add five paralegal positions to support caseload growth.

Probation

- The base budget reflects operational funding for Los Pinos and Juvenile Hall Unit Q expansions.
- A recommended augmentation would add 85 new positions for the new Youth Leadership Academy.
- These facilities will bring total bed capacity to 900 compared to an anticipated need of 1,330 by 2010.
- The proposed State budget includes the reduction of Juvenile Justice Crime Prevention Act funding ($6.3 million for Orange County). If this proposal remains in the final budget, program impacts of this would occur in FY 2006-07.

Public Defender

- The department is providing services for a rising number of felony and homicide cases in Orange County.
- The department is working with the Courts on the development and implementation of several specialty courts (Community Court, Mental Health Court, DUI Court) to more effectively deal with specific offenses.

Sheriff

- In order to support ongoing operational and capital cost, the department anticipates a $36.7 million draw on the Public Safety Sales Tax reserve fund.
- In collaboration with the District Attorney, Probation and local law enforcement agencies, the base budget includes funding to support implementation of the Proposition 69 DNA Fingerprint, Unsolved Crime and Innocence Protection Act.
- Four new positions in the Investigation will establish the Crime Analysis Unit to study crime data and provide analysis to improve the efficiency of criminal investigations.
- Five new coroner positions will support caseload growth and the increasing complexity of autopsy procedures.

COMMUNITY SERVICES

Department of Child Support Services

- Since the State received federal approval to delay the payment of the 2006 federal automation penalty to September 15, 2006, the state's payment will be deferred to FY 2006-07. There is currently no authorization to pass this cost on to local government.

Health Care Agency

- Consistent with the provisions of Measure H, the Tobacco Settlement Funds Initiative approved by the voters in November 2000, total estimated revenue of $31 million will be allocated to the following services:
  - 19% Health care services for seniors and persons with disabilities
  - 23% Emergency room physicians and on-call specialists
  - 12% Tobacco related disease prevention and control
  - 20% Nonprofit community clinics
  - 6% Proportional reimbursement to hospitals for charity care
  - 20% Public safety including a drug/alcohol rehabilitation program at Theo Lacy jail (64 secure beds)

  Use of all Measure H funds is monitored for strict adherence to the provision of the initiative. Actual Tobacco Settlement Funds received will be allocated by the above percentages, whether they fall below, meet or exceed budget amounts.
- A $3 million augmentation for Medical Services to Indigents is recommended to improve the quality and timeliness of patient care and increase the overall net reimbursement of healthcare providers.
- A $1.5 million augmentation for Mental Health evaluation and treatment services is recommended to provide six acute psychiatric beds so patients can be moved out of emergency rooms within 24 hours for mandated assessment and treatment.
- The State budget includes the suspension of the County's mandate to provide AB 3632 mental health services to handicapped and disabled students. The base budget assumes continuation of these services paid for by the school districts. A mid-year adjustment will be required if the program is discontinued.

Public Administrator/Public Guardian

- The Board of Supervisors voted on May 3, 2005 to establish this department that was formerly part of the Health Care Agency. The base budget includes 69 positions, $4.5 million in appropriations with a $2.3 million Net County Cost. This action is expected to save about $103,000 in Net County Cost.

Social Services Agency

- An augmentation is recommended for 50 limited-term positions and $4.2 million in Net County Cost for implementation the new CalWIN system in February 2006. This is a mandated statewide automated system for eligibility determination, benefit calculation, case management, client correspondence and report generating for the various programs administered by the department.
- Created a separate budget (agency code 064) to account for the costs of the In-Home Supportive Services program ($23 million with $4.6 million in Net County Cost).
- The Governor's January budget proposed State reduction in funding to no more than minimum wage for the IHSS program provider wages and benefits.

Housing & Community Services

- This department continues phased reductions to the Office on Aging consistent with the 2003 Strategic Financial Plan recommendations.
- Reductions to administrative and information technology costs have been made through changes made following the merger of Housing &Community Development and Community Services Agency programs.

INFRASTRUCTURE AND ENVIRONMENTAL RESOURCES

Resources & Development Management Department

- Recommended budget reflects the merger of Planning and Development Services Department (PDSD) and Public Facilities and Resources Department (PFRD) into the new Resources Development and Management Department (RDMD).
- Significant changes in the Watershed and Coastal Resources (WCR) budget include an augmentation to increase Net County Cost in order to reduce the annual operating transfer from the Flood Fund. Another augmentation would add two Environmental Resource Specialist positions in preparation for additional National Pollution Discharge Elimination Standards monitoring requirements.
- $50 million in Federal Funding will be available to continue the Santa Ana River project including property purchases behind Prado Dam.

- State suspension of AB 2928 results in a loss of $4.7 million for pavement and street storm drain maintenance.

Orange County Public Library (OCPL)

- The Orange County Public Library (OCPL) will add a Staff Specialist position to serve as the Literacy Learner Coordinator for the Literacy Program.
- Maintains current service levels at all branch libraries
- Construction of the Wheeler Branch Library in the City of Irvine. This will be a 10,000 square foot facility estimated to cost $3.2 million.

Integrated Waste Management Department (IWMD)

- IWMD established a Habitat Mitigation Plan to combine regional habitat mitigation activities into one integrated department plan to best meet the overall needs of the Natural Community Conservation Plan (NCCP). The purpose of the NCCP is to allow growth and development to occur while ensuring the preservation of significant natural habitat for future generations.
- Prima Deshecha will begin a De-silting Basin Improvement Project in 2005 as part of the development plan and to add 1.5 years of capacity allowing for an additional 1.4 million tons of waste to buried at the landfill.
- Frank R. Bowerman landfill began Phase 7B construction to allow for continued expansion of the landfill while preserving future capacity. Additionally, Phase 7B is part of the long-range plan to stabilize the landslide.
- Santiago Canyon Landfill completed closure construction in 2004.
- IWMD extended its Waste Disposal Agreement terms for an additional 3 years through June 30, 2010. These agreements provide the basis for steady operational planning.
- IWMD will continue to support the County General Fund in FY05/06 with $12.8 million for bankruptcy recovery debt obligations.
- IWMD will continue strategic planning in the Regional Landfill Options for Orange County (RELOOC) project that looks beyond current capacity and plans for future disposal needs of the County.

John Wayne Airport

- Recommended augmentations will add 18 positions, primarily to address increased operational and passenger growth activities and capital improvements. Seven of these positions are for increased workload and enhanced services and eleven replace contract and extra-help staff.
- Non-operating expenses increase of $27.9 million or 30% due to increased capital spending for infrastructure improvements, projects supporting operational and passenger growth, and an energy co-generation project.

GENERAL GOVERNMENT

- The Assessor Department anticipates receiving approximately $6.8 million in FY 04-05 from the State Property Tax Administration Grant Program (AB 589) to enhance property tax administration. These funds will continue to be budgeted separately in Fund 127.
- FY 04-05 one-time, partial-year funding for the Office of Protocol has been depleted. The Office plans to operate with funding from a private foundation.
- The Registrar of Voters anticipates receiving approximately $13.2 million in Help America Vote Act (HAVA) Title II funds in FY 05-06. The Department plans to use the majority of these funds to implement the Voter Verifiable Paper Audit Trail System and may apply some funds toward future maintenance cost of the electronic voting system.
- The Comprehensive Economic Development Program, including Arts Orange County and Film Commission, was budgeted in FY 04-05 with one-time funding ($260,542). No funding for FY 05-06 is recommended.
- Funding for Tourism will be based on actual receipts from the Transient Occupancy Tax at about $231,000.
- Clerk-Recorder continues to manage a high volume of documents without staffing increases. An additional service location is planned in the south county area.
- Treasurer/Tax-Collector-Effective January 1, 2005, the administrative fee charged to investment pool participants was lowered to from 12.50 to 11.25 basis points.

CAPITAL PROJECTS

- Conversion of the existing Central Utility Facility in Santa Ana to add cogeneration of electricity for use in County buildings in the Civic Center. The budget includes $26.4 million for construction which will be funded through bond financing.
- Modifications of the Central Justice Annex to create a Community Court. This project is jointly funded by the County ($600,000 budgeted in the County's General Fund Agency 036 Capital Projects) and Superior Court ($300,000 budgeted in the Court Facilities Fund 14U). This court will act as a one-stop shop to coordinate existing resources among county agencies, community agencies and the Court in order to reduce duplication and maximize efficiencies. Coordinated service delivery will enhance the effectiveness of assistance provided to clients in order to reduce recidivism.
- Construction contract for $8.5 million was awarded in FY 2004-05 for the floor-by-floor rehabilitation of floors seven and eight at the Central Justice Center.
- RDMD/Facilities Operations FY 2005-06 Maintenance and Repair Plan for various county facilities is budgeted at $3.6 million. It includes funding for re-roofing and energy efficiency projects and building system upgrades.
- Planning and design for South County Court construction is budgeted at $1.6 million. This new facility would provide up to 18 new courtrooms.
- Sheriff-Coroner deferred facility maintenance projects are funded at $3 million.
- Numerous Probation Department maintenance and construction projects are included for Juvenile Hall, Los Pinos Conservation Camp and Joplin Youth Center to keep these facilities functioning properly.
- Weapons screening building improvements are in progress for three justice centers and will be completed in FY 2005-06.
- A five-year Capital Improvement Plan (CIP) for Agency 036 - Capital Improvements document has been developed that outlines future capital needs for Orange County funded by the General Fund over the next five years. It also identifies financing strategies such as State construction grants, bond financing and low-interest loans from the State among others. It is intended to aid the County in its assessment for the best use of General Funds for capital needs. The assessment process is influenced by changing factors such as service need, available resources due to the changing economy, Board priorities, legal mandates, age and condition of existing buildings and health and safety considerations. For FY 05-06 the CIP is available as a separate document.

DEBT

- The Recommended Budget funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's 1996 Recovery Certificates of Participation (COPS), 1995 Recovery Bonds, refunded debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts, Community Facilities Districts and the Orange County Development Agency. Although the County's former Pension Obligation Bonds were economically defeased, this budget reflects the payments made by the trustee from escrow. This program also includes the debt associated with the County's Teeter program. This program also includes budgets for the $116 million set aside in the Debt Prepayment Fund. Debt related to specific operations such as John Wayne Airport and Integrated Waste Management is included in Program III where the operational budgets for those operations are also found. The County currently has no plans for temporary cash flow borrowing because there are sufficient general fund cash balances and reserves. Based on the County's Strategic Financial Plan and at current funding levels, the County is able to fulfill these debt obligations and sustain current and future services and operations.
- On April 19, 2005 the Board of Supervisors approved the financing in concept for bankruptcy debt reduction and restructuring. The concept is generally based on the County using $116.2 million accumulated in the Debt Prepayment Fund to defease the non-callable portions of the bankruptcy debt and refunding the remaining principal. Additionally, the debt term may be shortened by approximately 10 years for the 1996 Recovery Certificates of Participation (COPS) from the year 2026 to the year 2016 at which point all of the bankruptcy debt would be paid. This plan is expected to save the general fund about $9 million annually. The savings will be reflected in the budget after the plan is finalized.

INSURANCE, RESERVES & MISCELLANEOUS

- Optional Benefit Plan costs formerly budgeted centrally in the Employee Benefits (Agency 056) are budgeted directly in Department budgets beginning in FY 05-06.
- Total Workers' Compensation program charge to departments remains at the FY 04-05 level due to recent adopted legislative and medical review changes.
- Property and Casualty insurance reserves continue to be safely reduced by partially subsidizing liability self-insurance costs by 20% in FY 05-06. Overall cost of commercial insurance is leveling in comparison to previous years insurance renewals.
- Two new Internal Service Funds, 290 - HMO and 29Z - Life Insurance/AD&D have been established to replace previous trust funds for better accountability.
- Information Technology Internal Service Fund (ISF 289) will complete implementation of new IBM processor.

V. SUMMARY

This budget serves as a realistic plan of resources available to carry out the County's core businesses and priorities. It is consistent with the County's mission and corporate management system including the strategic financial plan and departmental business plans. It follows the CEO budget policy guidelines, meets the majority of departmental requests, incorporates impacts of the January State budget proposals, addresses important capital needs and meets important contingency fund and debt reduction goals.

VI. NEXT STEPS

A public workshop on this Recommended Budget is planned for May 27, 2005. The Board of Supervisors will hold public hearings regarding this budget starting June 14, 2005. Results of those hearings will be incorporated into this budget and will be returned to the Board for adoption on June 28, 2005. The new fiscal year begins on July 1, 2005. During the fiscal year, the CEO will present the Board with quarterly budget status reports and recommend appropriate changes as needed including changes which may arise from final County fund balances, final State budget impacts, new legislation, new grants awards, and other circumstances or conditions that may affect the budget.

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You may also review the budget document on-line at:

- **http://www.oc.ca.gov/finance/finance.asp**